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SUBJECT: Argentina: Electricity Tariff Increase: Welcome Sign of
GoA Focus on Costly Subsidies

Summary

¶1. (SBU) The GoA has announced scaled 10-30% increases on residential electricity use in the greater Buenos Aires metropolitan area, the first such increase since 2002. The move is designed to maintain rates for low-use/low-income clients at current levels. Planning Minister De Vido declared that the tariff rate increases were designed to "eliminate subsidies, improve wealth distribution, and encourage the rational use of energy." This is the first announcement by a senior GoA official that clearly articulates that limiting the drain on fiscal coffers caused by burgeoning GoA subsidies is a government priority. End Summary.

Scaled Residential Tariff Increases

¶2. (SBU) On July 30, one day after President Cristina Fernandez de Kirchner inaugurated a new electricity generation plant in Salta (Septel), Planning Minister De Vido announced the first increase in residential electricity tariffs since 2002 for GoA-regulated electricity transmission monopoly Transener and three electricity distribution companies that serve the Greater Buenos Aires region: Enenor (serving 2.5 million customers and owned by Argentine energy investment fund Pampa Energy); Edesur (serving 2.2 million customers and owned by Italy's national energy company ENEL); and Edelap (serving 300,000 clients and owned by U.S. energy major AES). De Vido declared that the tariff rate increases were designed to "eliminate subsidies, improve wealth distribution, and encourage the rational use of energy."

¶3. (U) Tariff increases will be made retroactive to July 1, 2008. A base "social" tariff on the first 650 Kilowatt hours (Kwh) used every two months will be maintained at current levels. Rates for incremental bimonthly use will increase by 10% (for amounts between 650- 800 Kwh) and jump to a 30% increase for consumption over 1201 Kwh. De Vido emphasized that 76% of Greater Buenos Aires area residential clients (some 3.2 million customers), who account for 50% of residential consumption, use less than 650 Kwh and will not see their rates change.

¶4. (U) Electricity rates in the greater Buenos Aires area remain among the lowest in Argentina. Consumers pay an average of APR 59 for 650 Kwh of use in a bi-monthly period, while Mendoza residents pay ARP 110, La Pampa residents pay ARP 142, Cordoba residents pay ARP 169, and Santa Fe province residents pay ARP 174. International comparisons are also telling. According to GoA figures, residential clients in Asuncion, Paraguay pay the equivalent of ARP 176 per 650 Kwhs bimonthly, Montevideo, Uruguay residents pay ARP 343, Santiago, Chile residents pay ARP 490, and Rio de Janeiro residents pay ARP 560.

Tariff Revenues Dedicated to New Capital Investment

¶5. (U) A Planning Ministry release said that all incremental revenue gained by the three electricity distribution companies would be dedicated to ARP 6 billion (roughly US\$ 2 billion) in capital investment to both improving existing infrastructure and doubling distribution capacity over a 10-year period. A list of transformer stations, substations, and high-and low-tension transmission lines were detailed.

Comment

¶6. (SBU) Even when tariff increases are applied, residential electricity rates in political bellwether Greater Buenos Aires will remain among the lowest in all Argentina - and well below rates paid by consumers in neighboring Southern Cone capitals. Nevertheless, this GoA move is being well received by markets and the three Greater Buenos Aires electricity distribution companies directly affected. Despite the GoA's pledge that incremental revenues from the tariff boost would be dedicated to new capital investment, AES representatives note that there is no/no written agreement between the GoA and electricity distribution companies to that effect.

¶7. (SBU) De Vido's statement that the tariff increases will serve to limit burgeoning state subsidies to the electricity sector is important. It constitutes the first statement by a senior GoA official in the CFK government that recognizes the importance of limiting the drain of burgeoning subsidies on fiscal coffers. It also challenges the current conventional wisdom that last week's departure of Cabinet Chief Alberto Fernandez leaves statisticians like De Vido free to adopt anti-market policies with no internal GoA opposition. Local economists will celebrate the tariff increase as

a sign the GoA is getting serious about sustaining its primary fiscal surplus.

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